QIAGEN NV
Form 6-K
May 15, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

QIAGEN N.V.

Spoorstraat 50

5911 KJ Venlo

The Netherlands

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes ¨ No x

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QIAGEN N.V.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2006 (unaudited)	December 31, 2005
Assets		
Current Assets:		
Cash and cash equivalents	$ 197,738,000	$ 191,700,000
Marketable securities	15,000,000	15,000,000
Notes receivable	4,553,000	4,283,000
Accounts receivable, net of allowance for doubtful accounts of $3,867,000 and $2,388,000 in 2006 and 2005, respectively	70,740,000	63,538,000
Income taxes receivable	4,296,000	4,161,000
Inventories	54,527,000	53,653,000
Deferred income taxes	9,901,000	11,617,000
Prepaid expenses and other	25,974,000	26,305,000
Total current assets	382,729,000	370,257,000
Long-Term Assets:		
Property, plant and equipment, net	200,211,000	195,199,000
Goodwill	100,743,000	93,914,000
Intangible assets, net	84,414,000	74,566,000
Deferred income taxes	6,403,000	6,346,000
Other assets	25,408,000	25,016,000
Total long-term assets	417,179,000	395,041,000
Total assets	$ 799,908,000	$ 765,298,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2006 (unaudited)	December 31, 2005
Liabilities and Shareholders Equity		
Current Liabilities:		
Short-term loans	$ 3,118,000	$
Current portion of long-term debt	6,069,000	5,921,000
Current portion of capital lease obligations	723,000	995,000
Accounts payable	16,639,000	15,934,000
Accrued and other liabilities	49,597,000	52,707,000
Income taxes payable	15,144,000	14,935,000
Deferred income taxes	1,315,000	1,179,000
Total current liabilities	92,605,000	91,671,000
Long-Term Liabilities:		
Long-term debt, net of current portion	192,486,000	191,447,000
Capital lease obligations, net of current portion	11,483,000	11,101,000
Deferred income taxes	19,131,000	17,570,000
Other	3,538,000	3,052,000
Total long-term liabilities	226,638,000	223,170,000
Commitments and Contingencies		
Shareholders Equity:		
Common shares, .01 EUR par value:		
Authorized 260,000,000 shares		
Issued and outstanding 149,275,369 shares in 2006 and 148,455,864 shares in 2005	1,523,000	1,513,000
Additional paid-in capital	165,207,000	157,796,000
Retained earnings	291,780,000	274,200,000
Accumulated other comprehensive income	22,155,000	16,948,000
Total shareholders equity	480,665,000	450,457,000
Total liabilities and shareholders equity	$ 799,908,000	$ 765,298,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended March 31,	
	2006	**2005**
Net sales	$ 108,715,000	$ 95,025,000
Cost of sales	32,884,000	30,603,000
Cost of sales acquisition related	461,000	
Gross profit	75,370,000	64,422,000
Operating Expenses:		
Research and development	10,188,000	9,516,000
Sales and marketing	26,419,000	22,265,000
General and administrative	11,529,000	10,672,000
Purchased in-process research and development	200,000	
Acquisition, integration and related costs	284,000	
Acquisition related intangible amortization	1,505,000	576,000
Total operating expenses	50,125,000	43,029,000
Income from operations	25,245,000	21,393,000
Other Income (Expense):		
Interest income	2,010,000	1,873,000
Interest expense	(1,458,000)	(1,477,000)
Research and development grants	77,000	208,000
Gain (loss) from equity method investees	326,000	(493,000)
Gain on foreign currency transactions	283,000	7,000
Other miscellaneous income, net	95,000	182,000
Total other income	1,333,000	300,000
Income before provision for income taxes	26,578,000	21,693,000
Provision for income taxes	8,998,000	7,745,000
Net income	$ 17,580,000	$ 13,948,000
Basic and diluted net income per common share	$ 0.12	$ 0.09

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31,	
	2006	**2005**
Cash Flows from Operating Activities:		
Net income	$ 17,580,000	$ 13,948,000
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of businesses acquired:		
Depreciation and amortization	6,720,000	6,018,000
Provision for losses on accounts receivable	14,000	5,000
Deferred income taxes	2,066,000	3,165,000
Share-based compensation expense	84,000	
Purchased in-process research and development	200,000	
Non-cash acquisition costs	461,000	
Loss on disposition of property and equipment		54,000
Net realized loss on marketable securities		125,000
(Gain) loss on equity method investees	(326,000)	493,000
Incremental tax benefit from exercise of non-qualified stock options	(2,214,000)	1,206,000
Gain on dissolution of subsidiary		(123,000)
Decrease (increase) in:		
Notes receivable	(256,000)	(211,000)
Accounts receivable	(3,074,000)	683,000
Inventories	(42,000)	3,813,000
Income tax receivable	(159,000)	
Prepaid expenses and other	820,000	596,000
Other assets	106,000	279,000
Increase (decrease) in:		
Accounts payable	405,000	(4,364,000)
Accrued liabilities	(2,832,000)	(4,987,000)
Income taxes payable	2,063,000	100,000
Other	712,000	(83,000)
Net cash provided by operating activities	22,328,000	20,717,000
Cash Flows from Investing Activities:		
Purchases of land, property and equipment	(4,563,000)	(2,926,000)
Proceeds from sale of property	158,000	27,000
Purchase of investments		(2,121,000)
Proceeds from sales of marketable securities		7,562,000
Purchases of marketable securities		(12,309,000)
Purchase of intangibles	(1,671,000)	(382,000)
Cash paid for acquisitions, net of cash acquired	(17,096,000)	
Other	121,000	
Net cash used in investing activities	(23,051,000)	(10,149,000)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued)

	Three Months Ended March 31, 2006	2005
Cash Flows from Financing Activities:		
Principal payments on capital leases	(187,000)	(288,000)
Proceeds from subscription receivable	233,000	226,000
Issuance of common shares in connection with stock option exercises	4,890,000	3,533,000
Incremental tax benefits from exercise of non-qualified stock options	2,214,000	
Net cash provided by financing activities	7,150,000	3,471,000
Effect of exchange rate changes on cash and cash equivalents	(389,000)	(100,000)
Net increase in cash and cash equivalents	6,038,000	13,939,000
Cash and cash equivalents, beginning of period	191,700,000	196,375,000
Cash and cash equivalents, end of period	$ 197,738,000	$ 210,314,000
Supplemental Cash Flow Disclosures:		
Cash paid for interest	$ 2,234,000	$ 2,034,000
Cash paid for income taxes	$ 7,339,000	$ 2,918,000
Equipment purchased through capital lease	$ 45,000	$

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of QIAGEN N.V. (the Company), a company incorporated in The Netherlands, and its wholly owned subsidiaries that are not considered variable interest entities. All significant intercompany accounts and transactions have been eliminated. All amounts are presented in U.S. dollars, unless otherwise indicated. Investments in companies where the Company exercises significant influence over the operations, and where the Company is not the primary beneficiary, are accounted for using the equity method. All other investments are accounted for under the cost method.

In the opinion of management and subject to the year-end audit, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for a fair presentation have been included.

The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 20-F for the year ended December 31, 2005.

Reclassifications

Certain reclassifications of prior amounts have been made to conform with the current year presentation.

2. Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments, (SFAS 155) which amends Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133) and Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, (SFAS 140). SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal year beginning after September 15, 2006. Earlier adoption is permitted, provided the Company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company does not believe that the adoption of this standard will have a material impact on its consolidated financial condition, consolidated results of operations or cash flows.

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections . This new standard replaces APB Opinion No. 20, Accounting Changes , and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements . Among other changes, Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a restatement. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company adopted this statement on January 1, 2006 without a material effect.

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3. Share-Based Compensation

During 2005, the Company adopted the QIAGEN N.V. Amended and Restated 2005 Stock Plan (the Plan). The Plan allows for the granting of stock rights, incentive stock options, as well as for non-qualified options, stock grants and stock based awards, generally with terms of up to 10 years, subject to earlier termination in certain situations. Generally, the options granted prior to October 2004 vested over a three-year period. During 2004 and 2005 the Company accelerated the vesting of certain options. The vesting and exercisability of certain stock rights will be accelerated in the event of a Change of Control, as defined in the Plan. To date all grants have been at the market value on the grant date or at a premium above the closing market price on the grant date. The Company has approximately 18.4 million shares of common stock reserved and available for issuance under this plan at March 31, 2006.

Prior to January 1, 2006, the Company accounted for its equity-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (Opinion 25), and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). Effective January 1, 2006, the Company adopted the provisions of FASB Statement No. 123 (revised 2004), Share-Based Payment , (SFAS 123(R)) and SEC Staff Accounting Bulletin No. 107, Share-Based Payment , (SAB 107), using the modified prospective transition method. Under the modified prospective transition method, compensation cost recognized in 2006 includes compensation cost for all share-based payments granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

The Company utilizes the Black-Scholes-Merton valuation model for estimating the fair value of its stock options granted. Option valuation models, including Black-Scholes-Merton, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility, and the expected life of the award.

Risk-Free Interest Rate This is the average U.S. Treasury rate (having a term that most closely resembles the expected life of the option) at the date the option was granted.

Dividend Yield The Company has never declared or paid dividends on its common stock and does not anticipate paying any dividends in the foreseeable future.

Expected Volatility Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. As there were no option grants during the first quarter of 2006, beginning in the second quarter of 2006 the Company intends to use a combination of the historical volatility of its stock price and the implied volatility of market-traded options of the Company s stock to estimate the expected volatility assumption input to the Black-Scholes model in accordance with SFAS 123R and SAB 107. In prior periods, the Company relied solely on the historical volatility of its stock price for its volatility assumption input to the Black-Scholes model. The Company s decision to use a combination of historical and implied volatility is based upon the availability of actively traded options of its stock and its assessment that such a combination is more representative of future expected stock price trends. Since 2001, the Company s annual volatility has ranged from 75 percent in 2001 to 26 percent in 2005 with an average of 57 percent during the five year period.

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Expected Life of the Option This is the period of time that the options granted are expected to remain outstanding. The Company will use SAB 107 s simplified method for estimating the expected term of share-based awards granted in 2006.

Forfeiture Rate This is the estimated percentage of options granted that are expected to be forfeited or cancelled on an annual basis before becoming fully vested. The Company estimated the forfeiture rate based on historical forfeiture experience. For the three month period ended March 31, 2006, the forfeiture rate was 9 percent.

No stock options or other share awards were granted during the three month period ended March 31, 2006. Following are the weighted-average assumptions used in valuing the stock options granted to employees during the three month period ended March 31, 2005:

	2005
Stock price volatility	52%
Risk-free interest rate	4.02%
Expected life (in years)	4
Dividend rate	0%
Forfeiture rate	0%

A summary of the status of the Company s employee stock options as of March 31, 2006 and changes during the three months then ended is presented below:

All Employee Options	**Number of Shares**	**Weighted Average Exercise Price**	**Weighted Average Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2006	13,585,295	$ 12.732		
Granted				
Exercised	(819,505)	$ 5.865		
Forfeited and cancelled	(131,913)	$ 13.440		
Outstanding at March 31, 2006	12,633,877	$ 13.142	6.61	$ 48,874,400
Exercisable at March 31, 2006	12,536,346	$ 13.188	6.60	$ 48,053,146
Vested and expected to vest at March 31, 2006	12,671,273	$ 13.143		

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2005 was $5.456. For the three months ended March 31, 2006 and 2005, options to purchase 819,505 and 572,501 shares, respectively, were exercised. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $6.5 million and $3.5 million, respectively.

As a result of adopting SFAS 123R on January 1, 2006, the Company s income before income taxes and net income for the three-month period ended March 31, 2006, is approximately $84,000 and $55,000 lower, respectively, than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the three-month period ended March 31, 2006 would have not been impacted if the Company had not adopted SFAS 123R. The Company anticipates that the adoption will have a greater impact in future periods.

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The following table illustrates the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS 123(R) to equity-based compensation for the three months ended March 31, 2005.

	Three months ended March 31, 2005
Net income, as reported	$ 13,948,000
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(1,699,000)
Pro forma net income	$ 12,249,000
Earnings per share:	
Basic and Diluted as reported	$ 0.09
Basic and Diluted pro forma	$ 0.08

The unrecognized share based compensation expense related to employee stock option awards is approximately $130,000 and will be recognized over a weighted average period of approximately 0.33 years.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits generated from tax deductions in excess of the compensation costs recognized for those options (excess tax benefits) to be classified as financing cash flows.

4. Net Income Per Common Share

Net income per common share for the three months ended March 31, 2006 and 2005 are based on the weighted average number of common shares outstanding and the dilutive effect of stock options outstanding.

The following schedule summarizes the information used to compute net income per common share:

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Weighted average number of common shares used to compute basic net income per common share	148,892,000	147,329,000
Dilutive effect of warrants	686,000	
Dilutive effect of stock options	2,700,000	1,726,000
Weighted average number of common shares used to compute diluted net income per common share	152,278,000	149,055,000
Outstanding stock options having no dilutive effect, not included in above calculation	3,573,000	5,287,000
Outstanding warrants having no dilutive effect, not included in above calculation	11,175,000	11,862,000

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5. Acquisitions

artus Gesellschaft für molekularbiologische Diagnostik und Entwicklung mbH

In May 2005, the Company acquired all of the outstanding capital stock of artus Gesellschaft für molekularbiologische Diagnostik und Entwicklung mbH (artus), an established leader in PCR-based molecular diagnostic tests for pathogenenic, genotyping and pharmacogenomic testing. artus unique portfolio spans over 60 assays including 30 CE marked assays for detection of a variety of viral and bacterial pathogens such as SARS, Herpes simplex virus -1/-2, Epstein-Barr-Virus (EBV), West Nile Virus, Malaria, Salmonella and Avian Flu. The portfolio also includes select assays for genotyping and veterinary medicine and a strong pipeline of complete panels for certain disease profiles. artus maintains a very active network of relationships with academic and industrial partners to identify and develop test opportunities. The Company believes that this acquisition is an excellent fit in its strategy to increase the Company s value as a partner to the molecular diagnostics industry. In addition to its leading position in preanalytical sample preparation in molecular diagnostics, the Company is now able to offer optimized and synchronized combinations of preanalytical sample preparation and diagnostic assay solutions to its partners in molecular diagnostics. By providing the opportunity for partners in molecular diagnostics to expand their portfolio by adding artus validated assays, the Company intends to further contribute to accelerating the growth of molecular diagnostics by broadening the menu of tests available on today s diagnostic platforms.

The purchase price, including direct acquisition costs and adjusted as per the terms of the share purchase agreement, paid by the Company was approximately EUR 26.4 million (approximately $32.6 million at May 31, 2005) in cash. A total of EUR 9.3 million (approximately $11.5 million at May 31, 2005), of which EUR 2.7 million was considered as purchase price, was paid into escrow and will be released subject to certain milestones being met. In connection with the acquisition, the Company expensed costs of approximately $2.0 million, which includes $1.8 million related to the impairment of existing fixed and other assets as a result of the acquisition.

Using the results of an independent appraisal, the purchase price of $32.6 million has been allocated as follows: $21.1 million was allocated to purchased intangibles, to be amortized over 13 years, $3.4 million to customer relationships, to be amortized over 10 years, and $23.8 million to goodwill. In addition, the Company acquired tangible net assets of $5.7 million, assumed debt of $16.3 million and recorded a long-term deferred tax liability related to the acquired intangibles of $5.8 million. $714,000 was expensed for purchased in-process research and development. None of the goodwill is deductible for tax purposes. The results of artus operations prior to the date of acquisition were not significant. The results of operations of artus are included in the consolidated results for the Company from the date of acquisition.

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Other Acquisitions

During the first quarter of 2006, the Company completed two other acquisitions, including the acquisition of Shenzhen PG Biotech Co. Ltd, located in China, and the acquisition of the artus business of Diatech s.r.l., located in Jesi, Italy, which were not significant to the overall consolidated financial statements. The aggregate purchase price of the 2006 acquisitions was $18.2 million. Using the results of independent and internally prepared appraisals, the purchase prices totaling $18.2 million have been allocated as follows: $9.8 million to purchased intangibles, to be amortized over lives up to 10 years, $5.5 million to goodwill, none of which is deductible for tax purposes, $6.9 million to tangible net assets, $3.1 million of assumed debt and $200,000 was expensed for purchased in-process research and development. Additionally the company recorded a deferred tax liability on the acquired intangibles of $1.1 million. The allocation of one of the acquisitions reflects the Company s estimates of the purchase price allocation and will be revised at a later date. The results of operations of the acquired companies are included in the consolidated results for the Company from the date of acquisition.

During 2005, the Company completed five other acquisitions which were not significant to the overall consolidated financial statements. The aggregate purchase price of the 2005 acquisitions was $43.1 million. Pursuant to the purchase agreements, the Company could be required to make additional contingent cash payments totaling $27.2 million through 2009. Any contingent payments made will be accounted for as additions to the purchase price. Using the results of independent appraisals, the purchase prices totaling $43.1 million have been allocated as follows: $21.9 million was allocated to purchased intangibles, to be amortized over lives up to 14 years, and $18.8 million to goodwill, $12.4 of which is deductible for tax purposes. In addition, the Company acquired tangible net assets of $3.3 million and expensed $2.5 million for purchased in-process research and development. During the first quarter 2006, the preliminary purchase price allocation of one of the acquisitions was finalized resulting in a reduction to goodwill of $1.4 million. The results of operations of the acquired companies are included in the consolidated results for the Company from the date of acquisition.

As a result of the Company s planned integration of one of the businesses acquired in 2005, including the closure of an acquired facility as approved by the Supervisory Board, certain employees of the acquired company were terminated and relocation to the Company s other sites was offered to the remaining employees. Activity for accrued restructuring and relocation costs for the three months ended March 31, 2006 is as follows:

	Accrual Balance 12/31/2005	Unused Amounts Reversed to Goodwill	Amounts Paid in Cash or Settled	Accrual Balance 3/31/2006
Severance and employee related	$ 1,011,000	$ (335,000)	$ (459,000)	$ 217,000
Lease and related costs	2,480,000	(1,068,000)		1,412,000
	$ 3,491,000	$ (1,403,000)	$ (459,000)	$ 1,629,000

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Pro Forma Results

The following unaudited pro forma information assumes that the above acquisitions occurred at the beginning of the periods presented. For the three months ended March 31, 2006 and 2005, pro forma net sales would have been $108.7 million and $102.4 million, pro forma net income would have been $18.2 million and $11.9 million, pro forma basic and diluted net income per common share would have been $0.12 and $0.08, respectively. The pro forma data excludes the 2006 acquisition related costs including a $461,000 charge to cost of sales related to inventory and a $200,000 charge for purchased in-process research and development. These unaudited pro forma results are intended for informational purposes only and are not necessarily indicative of the results of operations that would have occurred had the acquisitions been in effect at the beginning of the periods presented, or of future results of the combined operations.

6. Variable Interest Entities

Financial Accounting Standards Board (FASB) revised Interpretation No. 46 (FIN 46R), Consolidation of Variable Interest Entities requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity with insufficient equity to finance its activities or where the owners of the entity lack the risk and rewards of ownership.

The Company has a 50% interest in a joint venture company, PreAnalytiX GmbH, for which neither joint venture partner is the primary beneficiary within the provisions of FIN 46. Thus, the Company accounts for this investment under the equity method. QIAGEN AG has been a 50% joint venture partner in PreAnalytiX since November 1999, when the joint venture was formed. PreAnalytiX was formed to develop, manufacture and market integrated systems for the collection, stabilization and purification of nucleic acids for molecular diagnostic testing. At present, the Company s maximum exposure to loss as a result of its involvement with PreAnalytiX is limited to the Company s share of losses from the equity method investment itself. The joint venture entity reported net profit for the period ended March 31, 2006.

The Company has a 100% interest in QIAGEN Finance (Luxembourg) S.A. (QIAGEN Finance), a company established for the purpose of issuing 2004 convertible debt. During the first quarter of 2006, the Company established QIAGEN Euro Finance (Luxembourg) S.A. (Euro Finance) for the purpose of issuing the Company s 2006 convertible debt. In August 2004, the Company issued $150.0 million of 1.5% Senior Convertible Notes due in 2024 through QIAGEN Finance. In May 2006 the Company announced the offering of $300.0 million 3.25% Senior Convertible Notes due in 2026 through Euro Finance. The proceeds of the 2004 Notes were, and the proceeds of the 2006 Notes will be, loaned to subsidiaries within the consolidated QIAGEN N.V. group. QIAGEN N.V. has guaranteed all of these Notes, and has agreements with each of QIAGEN Finance and Euro Finance to issue common shares to the investors in the event of conversion of any of the Notes. According to the provisions of FIN 46R, QIAGEN Finance and Euro Finance are variable interest entities for which the Company is not the primary beneficiary, thus neither is consolidated. Accordingly, the 2004 convertible debt is not (and the 2006 convertible debt, when issued will not be) included in the consolidated statements of QIAGEN N.V., though QIAGEN N.V. does report the full obligation of the debt through its liabilities to QIAGEN Finance and Euro Finance. QIAGEN N.V. accounts for its investment in QIAGEN Finance and Euro Finance as an equity investment pursuant to APB No. 18, and accordingly records 100% of the profit or loss of QIAGEN Finance and Euro Finance in the gain or loss from equity method investees. At present, the Company s maximum exposure to loss as a result of its involvement with QIAGEN Finance and Euro Finance is limited to the Company s share of losses from the equity method investment itself.

7. Derivatives and Hedging

The Company accounts for its derivative instruments in accordance with SFAS No. 133 and related guidance which require that an entity recognize all derivatives as either assets or liabilities in the balance sheet, measure those instruments at fair value and recognize the change in fair value in earnings in the period of change unless the derivative qualifies as an effective hedge that offsets certain exposures.

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During 2004 and 2005, the Company entered into forward and swap arrangements which qualify for hedge accounting as cash flow hedges of foreign currency denominated intercompany loans. The contracts mature on various dates through July 2011. The gain or loss on the change in the fair values of the derivatives are included in earnings to the extent they offset the earnings impact of changes in the fair values of the hedged obligations. Any difference is deferred in accumulated comprehensive income, a component of shareholders equity. These contracts effectively fix the exchange rate at which the intercompany loans will be settled, so that gains or losses on the forward contracts offset the losses or gains from changes in the value of the underlying intercompany loans. The Company has determined that no ineffectiveness exists related to these derivatives.

In the ordinary course of business, the Company purchases foreign currency exchange options to manage potential losses from foreign currency exposures. These options give the Company the right, but not the obligation, to purchase foreign currencies in exchange for U.S. dollars at predetermined exchange rates. The principal objective of such options is to minimize the risks and/or costs associated with global financial and operating activities. The Company does not utilize derivative or other financial instruments for trading or other speculative purposes. Gains or losses from changes in the fair market values are included in other miscellaneous income (expense), net.

8. Debt

The Company has five separate lines of credit amounting to approximately $10.4 million with variable interest rates, none of which was utilized at March 31, 2006.

In connection with the first quarter 2006 acquisition of PG Biotech, the Company acquired approximately $3.1 million in short-term debt. The debt was due and paid in April 2006.

At March 31, 2006, long-term debt totaled approximately $198.6 million, of which $6.1 million was current and includes a note payable of EUR 5.0 million (approximately $6.1 million) which is due in June 2008, and a note payable of EUR 35.0 million (approximately $42.5 million at March 31, 2006) which is due in annual installments through June 2011. These notes bear interest at a variable rate at EURIBOR plus 0.75%. The loan agreements contain certain financial and non-financial covenants, including but not limited to restrictions on the encumbrance of land, restrictions on the transfer of any patents to third parties and the maintenance of certain financial ratios. The Company was in compliance with these covenants at March 31, 2006.

In August 2004, the Company completed the sale of $150.0 million principal amount of 1.50% convertible unsubordinated notes due 2024, through its unconsolidated subsidiary QIAGEN Finance. The net proceeds of the 2004 Notes were loaned by QIAGEN Finance to consolidated subsidiaries in the U.S. and Switzerland. At March 31, 2006, $150.0 million is included in long-term debt for the amount of Note proceeds payable to QIAGEN Finance. These long-term notes payable to QIAGEN Finance have an effective fixed interest rate of 1.95% and are due in August 2011. Interest on the Notes is payable semi-annually in February and August. The Notes were issued at 100% of principal value, and are convertible into 11.9 million shares of common stock at the option of the holder upon the occurrence of certain events at a price of $12.6449 per share, subject to adjustment. QIAGEN N.V. has an agreement with QIAGEN Finance to issue shares to the investors in the event of conversion. This subscription right, along with the related receivable, is recorded at fair value in the equity of QIAGEN N.V. as paid-in capital. The Notes may be redeemed, in whole or in part, at QIAGEN s option on or after August 18, 2011, at 100% of the principal amount provided the actual trading price of the Company s common stock exceeds 120% of the conversion price for twenty consecutive trading days. In addition, the holders of the Notes may require QIAGEN to repurchase all or a portion of the outstanding Notes for 100% of the principal amount, plus accrued interest, on August 18, 2011, 2014 and 2019.

In May 2006, the Company announced the offering of $300 million of 3.25% Senior Convertible Notes due in 2026 through a new unconsolidated subsidiary QIAGEN Euro Finance (Luxembourg) S.A. as discussed more fully in footnote 16.

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9. Inventories

The components of inventories consist of the following as of March 31, 2006 (unaudited) and December 31, 2005:

	2006	2005
Raw materials	$ 18,330,000	$ 18,200,000
Work in process	20,364,000	18,064,000
Finished goods	15,833,000	17,389,000
Total inventories	$ 54,527,000	$ 53,653,000

10. Intangible Assets

The following sets forth the intangible assets by major asset class as of March 31, 2006 and December 31, 2005:

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets:				
Patent and license rights	$ 30,713,000	$ (8,608,000)	$ 30,025,000	$ (8,488,000)
Developed technology	53,750,000	(5,936,000)	48,128,000	(4,862,000)
Customer Base and Trademarks	15,282,000	(787,000)	10,226,000	(463,000)
	$ 99,745,000	$ (15,331,000)	$ 88,379,000	$ (13,813,000)
Unamortized Intangible Assets:				
Goodwill	$ 100,743,000		$ 93,914,000	

The changes in the carrying amount of goodwill for the three months ended March 31, 2006 relate primarily to acquisitions and foreign currency translation.

Amortization expense on intangible assets totaled approximately $2.0 million for the three month period ended March 31, 2006. Amortization of intangibles for the next five years is expected to be approximately:

2007	$ 8,760,000
2008	$ 8,644,000
2009	$ 8,263,000
2010	$ 7,655,000
2011	$ 7,536,000

11. Provision for Income Taxes

The provision for income taxes for the three month periods ended March 31, 2006 and 2005 is based upon the estimated annual effective rate. Fluctuations in the distribution of pre-tax income among the Company s operating subsidiaries can lead to fluctuations of the effective tax rate in the consolidated financial statements. In the first quarter of 2006, the tax rate was 34% compared to the first quarter 2005 effective rate of 36% due to such fluctuations. The Company s operating subsidiaries are exposed to effective tax rates ranging from zero up to approximately 43%.

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12. Shareholders   Equity

The following tables detail the changes in shareholders   equity from December 31, 2005 to March 31, 2006 and from December 31, 2004 to March 31, 2005, respectively:

	Common Shares		Additional		Accumulated Other	
			Paid-In	Retained	Comprehensive	
	Shares	Amount	Capital	Earnings	Income	Total
BALANCE AT DECEMBER 31, 2005	148,455,864	$ 1,513,000	$ 157,796,000	$ 274,200,000	$ 16,948,000	$ 450,457,000
Net income				17,580,000		17,580,000
Proceeds from subscription receivable			233,000			233,000
Unrealized loss, net on marketable securities					(3,000)	(3,000)
Unrealized gain, net on forward contracts					248,000	248,000
Translation adjustment					4,962,000	4,962,000
Issuance of common shares in connection with stock option exercises	819,505	10,000	4,880,000			4,890,000
Share-based compensation			84,000			84,000
Incremental tax benefit from exercise of non-qualified stock options			2,214,000			2,214,000
BALANCE AT MARCH 31, 2006	149,275,369	$ 1,523,000	$ 165,207,000	$ 291,780,000	$ 22,155,000	$ 480,665,000

	Common Shares		Additional		Accumulated Other	
			Paid-In	Retained	Comprehensive	
	Shares	Amount	Capital	Earnings	Income	Total
BALANCE AT DECEMBER 31, 2004	147,020,207	$ 1,495,000	$ 146,231,000	$ 211,975,000	$ 40,675,000	$ 400,376,000
Net income				13,948,000		13,948,000
Proceeds from subscription receivable			225,000			225,000
Unrealized loss, net on marketable securities					(45,000)	(45,000)
Realized loss, net on marketable securities					125,000	125,000
Unrealized loss, net on forward contracts					(638,000)	(638,000)
Translation adjustment					(8,201,000)	(8,201,000)
Issuance of common shares in connection with stock option exercises	572,501	8,000	3,526,000			3,534,000
Incremental tax benefit in connection with exercise of non-qualified stock options			1,206,000			1,206,000
BALANCE AT MARCH 31, 2005	147,592,708	$ 1,503,000	$ 151,188,000	$ 225,923,000	$ 31,916,000	$ 410,530,000

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13. Comprehensive Income

The components of comprehensive income for the three month periods ended March 31, 2006 and 2005 are as follows:

	Three Months Ended March 31, 2006	2005
Net income	$ 17,580,000	$ 13,948,000
Net unrealized (loss) on marketable securities	(3,000)	(45,000)
Net realized loss on marketable securities		125,000
Net unrealized gain (loss) on forward contracts	248,000	(638,000)
Foreign currency translation gain (loss) adjustments	4,962,000	(8,201,000)
Comprehensive income	$ 22,787,000	$ 5,189,000

The following table is a summary of the components of accumulated other comprehensive income as of March 31, 2006 and December 31, 2005:

	2006	2005
Net unrealized gain on marketable securities		